TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE

FISCAL NOTE

HB 655 - SB 768

March 1, 2013

SUMMARY OF BILL: Changes the methodology utilized for determining the capitalization rate for the valuation of property classified as agricultural, forest or open space land.

ESTIMATED FISCAL IMPACT:

Other Fiscal Impact - Based on information provided by the Comptroller of the Treasury, the net fiscal impact to local government revenue as a result of this bill cannot be reasonably quantified.

Assumptions:

- Under current law, the capitalization rate is calculated by dividing total farm real estate interest by total farm real estate debt as published for Tennessee by the Tennessee Agricultural Statistics Service for the most recent year available. Within a jurisdiction the rate can be adjusted by up to 100 basis points to reflect differences in land classes.
- Under the provisions of this bill, the capitalization rate would be the average lending rate for agricultural land determined by the state board of equalization based on its most recent survey of lenders.
- Pursuant to Tenn. Code Ann. § 67-5-1008(c)(1), there is established a maximum cap of six percent on the capitalization rate for the named property types.
- According to the Comptroller, to the extent the new methodology yields a cap rate lower than the current cap, property values may increase, and thus local revenue may increase. To the extent, the new methodology yields a cap rate higher than the current cap, property values may decrease, and thus local revenue may decrease. The Comptroller indicates that any change in the capitalization rate effectuated by this bill could be nullified by the current six percent cap. As a result, any net impact to local government revenue cannot be reasonably quantified.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

Lucian D. Geise, Executive Director

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